

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

Compliance Audit of Continental Airlines, Inc.

GOVERNMENT
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May 7, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits.

Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Debbie Gordon, Audit Manager
Annie Cheng, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

May 7, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Continental Airlines, Inc. (Continental). Continental has an airline lease and use agreement from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2006, through June 30, 2008

Landing Fees Paid: \$4,536,629

Results:

Continental over reported two landings and under reported the maximum landing weights on 57 revenue landings of the 9,746 revenue aircraft landings during the audit period. As a net result of these errors, Continental underpaid \$1,330 in landing fees plus \$355 in accrued interest, for a total of \$1,685 due the Airport.

Continental's response and the Airport's response are attached to this report. The Controller's office, City Services Auditor, will follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

Continental Airlines, Inc. (Continental) has an airline lease and use agreement from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for its air transportation business. The agreement, which commenced on July 1, 1981, requires Continental to submit to the Airport Department (Airport) a monthly report showing Continental's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Continental a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Continental has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.336 for fiscal year 2006-07 and \$3.01 for fiscal year 2007-08.

Scope and Methodology

The purpose of this audit was to determine whether Continental complied with the reporting and payment provisions of its lease and use agreement. Our audit period was from July 1, 2006, through June 30, 2008.

We conducted this audit by:

- Examining the applicable terms of Continental's agreement and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings.
- Testing whether Continental accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO.

- Verifying whether Continental had any outstanding landing fee payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Continental Underpaid Its Landing Fees by \$1,330

From July 1, 2006, through June 30, 2008, Continental reported 9,746 revenue aircraft landings, for which it paid \$4,536,629 in landing fees to the Airport.

Due to errors in preparing monthly reports to the Airport, Continental over reported two revenue aircraft landings and under reported the maximum landing weights on 57 revenue aircraft landings.

As a net result of these errors, Continental underpaid the Airport \$1,330 in landing fees plus \$355 in accrued interest, for a total of \$1,685.

The exhibits below show Continental's reported landings and fees paid (Exhibit 1) and the calculation of the net underpaid landing fees (Exhibit 2) based on the number of audited landings.

EXHIBIT 1

Number of Reported Landings and Landing Fees Paid July 1, 2006, Through June 30, 2008

Period	Number of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Paid
July 1, 2006, through June 30, 2007	4,849	707,835,300	\$ 3.336	\$ 2,361,339
July 1, 2007, through June 30, 2008	4,897	722,687,700	3.010	2,175,290
Total	9,746	1,430,523,000		\$ 4,536,629

Source: Airport reports on landing fees and aircraft landings.

EXHIBIT 2		Calculation of Net Underpaid Landing Fees				
		July 1, 2006, Through June 30, 2008				
Month/Aircraft Type	Official Landing Weights (lbs)	Reported Landings	Audited Landings	Over Reported Landings	Rate per 1,000 lbs	Over Paid Fees
September 2007 B737-800	144,000	410	409	1	\$ 3.01	\$ 433
December 2007 B737-800	144,000	410	409	1	3.01	433
Overpaid Total:		820	818	2		\$ 866
Month/Aircraft Type	Official Landing Weights (lbs)	Reported Landing Weights (lbs)	(Under) Reported Landing Weights (lbs)	Number of Reported Landings	Rate per 1,000 lbs	(Under) Paid Fees
November 2007 B737-700	128,000	98,000	(30,000)	8	\$ 3.01	\$ (722)
January 2008 B737-900ER	157,300	147,300	(10,000)	1	3.01	(30)
February 2008 B737-900ER	157,300	147,300	(10,000)	2	3.01	(60)
March 2008 B737-900ER	157,300	147,300	(10,000)	1	3.01	(30)
April 2008 B737-900ER	157,300	147,300	(10,000)	3	3.01	(90)
May 2008 B737-900ER	157,300	147,300	(10,000)	12	3.01	(361)
June 2008 B737-900ER	157,300	147,300	(10,000)	30	3.01	(903)
Underpaid Total:				57		\$(2,196)
Total:						\$(1,330)

Source: Auditor's analysis.

Recommendations

The Airport should take the following actions:

1. Request Continental to pay \$1,685 for underpaying its landings fees by \$1,330 during the audit period and \$355 in accrued interest, calculated through March 2009, on the underpaid amount. The Airport should assess additional interest, if necessary.
2. Request Continental to report actual maximum landing weights on all revenue landing aircraft, as required by its lease and use agreement.
3. Request Continental to report the correct number of landings on each Monthly Air Traffic Activity Report, as required by its lease and use agreement.

ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

P.O. Box 8097
San Francisco, CA 94118
Tel: (415) 821-3000
Fax: (415) 821-3000
www.flysf.com

April 20, 2009

Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Continental Airlines, Inc.

Dear Robert:

The Airport agrees on the audit findings to invoice Continental Airlines ("Continental") for the underpayment of its landing fees in the amount of \$1,330. However, after further review of the audit findings, the Airport will waive the \$355 in accrued interest as a result of the underpayment. The reason for the waiver is because during the audit period from July 1, 2006 through June 30, 2008 on payment of \$4,536,629, the net result of the over and underpayment of \$1,330 represents a very small error on the part of our long term business partner – Continental Airlines.

Further, the Airport will advise Continental to review its records thoroughly when reporting future aircraft landings to prevent such errors from occurring again.

If you have any questions, please feel free to call me at (415) 821-4533.

Sincerely,

A handwritten signature in dark ink, appearing to read "Teresa Rivor".

Teresa Rivor
Senior Property Manager
Aviation Management

Attachment

Recommendation	Responsible Agency	Response
1. Request Continental to pay \$1,685 for underpaying its landings fees by \$1,330 during the audit period and \$355 in accrued interest, calculated through March 2009, on the underpaid amount. The Airport should assess additional interest, if necessary.	Airport	Airport concurs on recommendation to invoice Continental Airlines, Inc. for \$1,330 for the underpayment of the landing fees. However, the airport will waive the \$355 for accrued interest on the underpayment in consideration of the fact that during the reporting period of July 1, 2006 through June 30, 2008 on payment of \$4,536,629, the \$2,196 in underpayment represents a very small error on the part of our long term business partner – Continental Airlines.
2. Request Continental to report actual maximum landing weights on all revenue landing aircraft, as required by its lease and use agreement.	Airport	Airport concurs with the recommendation, and will advise Continental to report actual maximum landing weights on all revenue landing aircraft as required by its lease and use agreement.
3. Request Continental to report the correct number of landings on each Monthly Air Traffic Activity Report, as required by its lease and use agreement.	Airport	Airport concurs with the recommendation and will advise Continental to report the correct number of landings on each Monthly Air Traffic Activity Report as required by its lease and use agreement.

ATTACHMENT B: CONTINENTAL'S RESPONSE

Continental Airlines

Kirk S. Holmes
General Manager

Continental Airlines, Inc.
Attn: Airport International Report
Department
2000 International Parkway, Suite 200
Ft. Worth, TX 76102

Phone: 817.353.2000
Fax: 817.353.2000



April 30, 2009

Robert Tarsia
Deputy Audit Director
City Hall, room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, Ca 94102

Dear Mr. Tarsia:

Continental Airlines is in receipt of the Landing Fee Compliance Audit conducted by The Controller's Office, City Services for the reporting period of July 1, 2006 through June 30, 2008.

Continental Airlines concurs with the noted discrepancies. There were 3 contributing factors:

1. A personnel change who was responsible for the preparation and submission of the reports included 1 non-revenue ferry flight as a revenue flight for September 2007 and December 2007 reports, respectively.
2. A typing error during the preparation of the November 2007 report resulted in 8 misreported landings in the November 2007 report.
3. Continental Airlines introduced a new aircraft type, 737-900. The max landing weight was incorrectly programmed in our internal landing weight tables, accounting for 57 incorrect landing on reports from January 2008 through June 2008.

Continental Airlines is committed to accurately reporting all statistical data to the Airport Commission; and, are very concerned when an irregularity occurs. We have taken step to mitigate any such errors in the future.

1. We have established internal reviews to ensure we have submitted accurate reporting.
2. Continental Airlines, headquarters revised protocols when updating internal landing weight tables to prevent future discrepancies.

I hope you find our response appropriate and consider this matter closed.

If you have any questions, please do not hesitate to let me know.

Sincerely,

Kirk S. Holmes
General Manager

Cc: B. Bitner
* B. Dowdle-Anchondo
M. Quinn
• R. VanCleve

